IFI POLICIES TO COUNTER RENEWED THREATS OF RECESSION, ELIMINATE THE GLOBAL JOBS GAP AND REDUCE INEQUALITY

Statement by Global Unions[1] to the 2015 Annual Meetings of the IMF and World Bank Lima, 9-11 October 2015

Introduction

1. Several downward revisions of the international financial institutions' growth forecasts, especially for emerging-market economies, mean that the current year is projected to have the lowest annual rate of economic growth since the recession year 2009. Further corrections are likely in light of recent developments. As a result, the global jobs gap that developed during the Great Recession will not only persist but will grow unless substantial policy changes take place. The IFIs need to end their approach of supporting austerity measures and labour market deregulation while largely ignoring problems of insufficient aggregate demand and not adequately addressing the continued drag created by a broken financial system. These detrimental policies should be replaced by a serious institution-wide focus on the creation of quality jobs, achieving the transition to a low-carbon future and reducing inequality.

2. The IFIs' recent attention to the damaging consequences of income and wealth inequality in analyses and public pronouncements is welcome, but it must be followed by actions on an operational level. Current IFI practice on the issue can only be characterized as highly inconsistent. Analyses blaming the increase of inequality on diminished redistribution in fiscal policies and weaker labour market regulations and institutions co-exist with country-level policy recommendations and loan conditions to cut benefits to the unemployed, increase regressive taxes, reduce minimum wages and limit the scope of collective bargaining. The IFIs should support more progressive tax regimes, broader social protection coverage, strengthened collective bargaining and robust minimum wages as part of a coherent approach to achieve more equal income distribution.

3. Global Unions' statement urges the World Bank to correct remaining weakness in the revised draft labour safeguard that it made public in August and to work with its private-sector lending arm to implement a report released earlier this year by IFC's ombudsman for improving the application of its performance requirement on labour. It urges the IMF

[1] The Global Unions group is made up of the International Trade Union Confederation (ITUC), which has 176 million members in 162 countries; the Global Union Federations (GUFs), which represent their respective sectors at the international trade union level (BWI, EI, IAEA, IFJ, IndustriALL, ITF, IUF, PSI and UNI); and the Trade Union Advisory Committee (TUAC) to the OECD.

to offer technical assistance to the group of countries in the euro-zone that is moving forward in joint implementation of a financial transactions tax and, in follow-up to a UN General Assembly resolution in September, to support the creation of a statutory process for the restructuring of unsustainable sovereign debts.

Measures to achieve sustainable growth and eliminate the global jobs gap

4. The "two-speed recovery" plan, previously presented by the IMF as the scenario through which rapid growth in emerging-market economies would pull along the rest of the global economy, has come to an abrupt stop. Following several downward corrections of growth forecasts for large emerging economies, the Fund's most recent prediction is that 2015 will be the year with the slowest rate of global economic growth since the recession year 2009. Manifestly, the Brisbane Action Plan of November 2014, which announced a series of measures whose impact according to IMF calculations would boost G20 countries' collective growth rate by 2.1 per cent by 2018, has been a failure. Economic growth has been falling rather than increasing.

5. Lower commodity prices and possible interest rate increases in the US are likely to hasten the flow of capital out of emerging and developing economies and affect economic growth in those regions. Higher interest rates in the US could lead to higher rates in other regions as well, accentuating the negative impact on growth. Although increased global growth rates will not automatically resolve the high levels of unemployment and under-employment existing in many countries, a steady and sustained period of economic growth is a necessary ingredient for eliminating the jobs gap that developed following the global financial crisis and recession of 2008-2009.

6. In early 2015, a report co-produced by the IMF that relied on projections from partial unemployment data proclaimed the jobs crisis to be over, but serious analyses such as those produced by the International Labour Organization show that the global jobs gap remains. These analyses take into account the lower labour force participation rates (due in part to long-term unemployed who have ceased active job search) and show that the current global employment-to-population ratio is substantially lower than it was prior to the 2008-2009 crisis. In fact, the ILO's estimated employment-to-population ratio was at the same level in 2014, 59.7 per cent, as it was in the global recession year 2009 (*World Employment and Social Outlook – Trends 2015)*. Indications of higher levels of under-employment, which are not reflected in measures of open unemployment, further demonstrate the continued gravity of the jobs crisis.

7. While publications of both the IMF in its series on *Jobs and Growth* and the World Bank in its *World Development Report 2013: Jobs* (WDR 2013) have undertaken analyses of the causes of unemployment, a priority focus on the creation of decent work has not been put in place throughout the institutions' operations. In most high-unemployment countries, the IMF has blamed "over-regulated" labour markets for economic stagnation and has focused policy recommendations and loan conditions on weakening collective bargaining and reducing minimum wages and other protections. This, in spite of the fact that studies produced by the Fund's own research department have been unable to justify such measures as being growth enhancing. For example, a chapter in the IMF's April 2015 *World Economic Outlook* on potential output growth identified product market

reforms and increased investment in information technology as among the factors that could significantly increase potential growth. "In contrast," according to the WEO, "labour market regulation is not found to have statistically significant effects on total factor productivity."

8. Recent IMF reports on Spain, which at the behest of the Fund has applied measures to reduce minimum wages and the scope of collective bargaining, have lauded the country's "success" in reducing the unemployment rate to 22 per cent, supposedly resulting from its so-called internal devaluation policy, i.e. wage reductions. Fund reports claim that lower wages have made the tradable sector more competitive vis-à-vis other euro-zone countries. In reality, Spain's trade balance with the rest of the euro-zone fell by 8 per cent between the first six months of 2014 and the first six months of 2015 (from €2.8 billion to €2.5 billion); with the entire European Union, Spain's trade balance turned from a €2.5 billion surplus to a €0.7 billion deficit over the same period. It is unfortunate that IMF reports present explanations unsubstantiated by evidence to justify controversial internal devaluation measures, when the most plausible reason for Spain's return to economic growth since 2014 has been easier credit conditions that have allowed enterprises and consumers to borrow for investments and purchases of durable goods.

9. Both the World Bank and IMF must follow through on their pro-employment rhetoric with concrete actions. In 2014, the Bank created a Jobs Group, following up on its WDR 2103, whose central recommendation was for Bank-financed activities to be assessed through a "jobs lens" to ensure they contribute to creating good jobs for development that respect fundamental workers' rights. The Bank should proceed with rapid implementation of that recommendation. The IMF similarly needs to incorporate an explicit employment impact assessment in its policy recommendations, which should lead it to reject the kind of austerity and deregulation conditions and advice that contributed to more than a quarter of the workforce being out of work in some European countries.

Developing a consistent approach on inequality within the IFIs

10. Ever since the theme of income and wealth inequality began receiving broad attention through the "Occupy" and other popular movements in 2011, the IMF and World Bank have paid greater heed to the issue in public pronouncements and publications. For instance, the Bank adopted a new organizational strategy in 2013 that made reduction of inequality – specifically "boosting the bottom 40 per cent" – one of its stated priority goals. On an analytical level, that year's WDR determined that higher minimum wages, some employment protection regulations and increased trade union membership are associated with lower inequality.

11. The causes of and problems created by increased inequality have also been addressed by several recent IMF research papers, leading to findings such as the following:

- Countries with lower inequality have higher and more durable growth, justifying more redistributive economic and social policies ("Redistribution, Inequality and Growth", February 2014)

- In most countries, fiscal policies have become less redistributive over time and thus have contributed to increased income inequality ("Fiscal Policy and Inequality", March 2014)
- Labour market deregulation leads to increased inequality at median levels of income but also at the extremes, "likely reflecting the fact that labor market flexibility benefits the rich and reduces the bargaining power of lower-income workers" ("Causes and Consequences of Income Inequality: A Global Perspective", June 2015)
- Declining rates of trade union density and collective bargaining coverage are the main drivers of increased inequality in many countries ("Inequality and Labor Market Institutions", July 2015)

12. However, both IFIs have been weak and highly inconsistent in following through on an operational level with the findings of their own research as to the causes and negative impacts of inequality. For example, at the World Bank a 2014 report describing actions for implementing its organizational goal to reduce inequality included the recommendation that labour markets needed to be made "more flexible" in all circumstances, flying in the face of the WDR 2013's finding that weaker minimum labour standards and institutions, i.e. more flexible labour markets, contribute to increased inequality. The WDR's finding was reinforced by a June 2015 Bank report on Latin America, a region that has experienced a substantial decline of inequality since the early 2000s. The report, *Working to End Poverty in Latin America and the Caribbean: Workers, Jobs and Wages*, highlighted the key role higher minimum wages have played in reducing poverty and inequality in the region.

13. The inconsistency between research and rhetoric on the one hand, and actionable policy proposals and conditionality on the other, is even more pronounced at the IMF. The Fund's loan conditions and policy advice, most notably in Europe, have led to much weaker protections for workers, lower incomes for wage earners including those at the minimum wage and sharp declines in collective bargaining coverage. At the same time, the application of fiscal austerity measures has led to reductions in payments such as unemployment or early retirement benefits for those who lost their jobs, and to heavier taxes that fall disproportionately on lower-income people, for example increased value added taxes.

14. Both the IMF and World Bank should develop consistent and coherent approaches within their institutions towards reducing income and wealth inequality in member countries. Both IFIs must further ensure that their country programmes, projects and policy advice are compatible with the objective of prioritizing employment creation and reducing inequality.

Implementation of a robust World Bank labour safeguard

15. Global Unions have urged the World Bank to require that its projects are in compliance with the International Labour Organization's core labour standards (CLS) starting in 1998, when it became a *de facto* condition of ILO membership for countries to adhere to the standards. Other multilateral development banks preceded the World Bank by requiring that the activities they finance comply with the CLS, as well as minimum

occupational health and safety requirements, obligations to provide information to workers and some other working conditions.[2] Trade unions, other civil society organizations and many governments urged the World Bank to adopt labour standard requirements as part of the review and update of its Environmental and Social Framework, commonly known as safeguards, that it began in 2012. A first draft of the new framework was made public in July 2014.

16. In August 2015, the Bank released a second draft of its proposed new safeguards policy that followed extensive consultations on the first proposal. The new draft of the labour safeguard contains many improvements on the version released a year earlier, which those who had supported the adoption of a labour safeguard criticized for its serious flaws. For example, the first draft had excluded contract or sub-contracted workers from any protection, even though this category of workers may be particularly subject to abuse and often constitutes the vast majority of workers in Bank-financed infrastructure projects. The new draft of August 2015 includes coverage of these workers.

17. However, some important weaknesses remain in the most recent draft labour safeguard. Chief among these are the lack of any reference to the ILO standards upon which the CLS are based and insufficient protection of workers who exercise their freedom of association against acts of discrimination or reprisal. In both these areas, the latest draft does not meet the standards of the labour safeguards adopted by other development banks. The ITUC and its Global Unions partners have submitted written suggestions to the World Bank for correcting the remaining flaws.[3] They also call on the Bank to adopt effective means and procedures for implementing the new safeguard and monitoring its application.

18. Global Unions have urged IFC, which has applied "Performance Standard 2: Labor and Working Conditions" (PS 2) as a borrowing requirement since 2006, to implement the recommendations of a May 2015 investigation report issued by its Compliance Advisor Ombudsman. The CAO report, which concerned a loan made to a Colombian borrower, found fault with IFC for proceeding with loan disbursements despite having corroborated information it received more than a year before from trade unions and the ILO showing that the firm's labour practices were in clear violation of PS 2. The CAO also criticized IFC for not compelling the firm to divulge assessments and action plans concerning its labour practices, thus contravening disclosure obligations that are part of IFC's social and environmental standards policy. Global Unions call on IFC to improve its loan approval, monitoring, disclosure and disbursement procedures as recommended by the CAO in order to achieve full compliance with its labour standards requirement.

[2] The African Development Bank, European Bank for Reconstruction and Development and International Finance Corporation (IFC) have adopted comprehensive labour safeguards. They include the requirement that borrowers comply with the core labour standards, which are internationally-agreed fundamental human rights for all workers irrespective of countries' level of development that are defined by ILO conventions covering freedom of association and right to collective bargaining, elimination of discrimination in respect of employment and occupation, elimination of forced or compulsory labour, and effective abolition of child labour.

[3] "Revised draft of World Bank's proposed labour safeguard: Improved but flaws remains", August 2015: http://www.ituc-csi.org/revised-draft-of-world-bank-s

IMF should support an independent debt restructuring process

19. In September 2015, the United Nations General Assembly voted in favour of a set of principles to guide sovereign debt restructuring processes for countries with unsustainable debts. Only six countries opposed the resolution and did so largely on the basis of arguments that debt restructuring is a responsibility of the IMF, not the UN. While the Fund's interest in debt restructuring issues is evident, nothing indicates that the IMF is in a position to act as the agency that can facilitate or enforce binding agreements on all creditors, which is one of the key principles of the UN resolution. That principle is intended to encourage strong creditor participation in debt workouts and to prevent so-called vulture funds from undermining or even completely blocking restructuring agreements.

20. The severe limits of the current regime, where binding agreements cannot be imposed on all creditors, has been demonstrated in several recent examples, including the following high-profile cases:

- Greece in 2012, when a limited debt restructuring agreement with private creditors arrived too late and with too little relief to prevent Greece's sovereign debt from soon reaching unsustainable levels
- Argentina in 2014, when US courts decided in favour of a small group of vulture funds and forced the government to cease payments on loan restructuring agreements that it had concluded with 93 per cent of creditors several years earlier
- Ukraine in August 2015, when a voluntary debt restructuring agreement between the government and some private creditors fell far short of the target the IMF had fixed for private creditor "buy-in" as part of the financial assistance package for the country

21. The IMF endorsed the creation of a Sovereign Debt Restructuring Mechanism in the early 2000s, shortly after Argentina was obliged to default on its sovereign debt while in the midst of a severe recession. The SDRM would have included a procedure for making binding for all creditors restructuring agreements endorsed by the debtor country and a super-majority of creditors. However, the IMF dropped the proposal in early 2003 largely because of opposition originating in the private financial sector and has not reconsidered it since. The Fund has given no indication that the private financial sector will no longer have a *de facto* veto over the creation of such a mechanism, even if the sector has demonstrated a clear lack of responsibility in resisting attempts to adequately regulate its activities, both before the 2008 financial collapse and after.

22. In addition to its lack of independence vis-à-vis private financial institutions, the IMF has the additional problem of being itself an important creditor institution with many countries in financial difficulty. In a few cases, the Fund has appealed to private creditors, governments and other international institutions to write down their loans to countries with unsustainable debts. But by simultaneously insisting that its own loans to those countries must be repaid in full and without delay, the IMF seriously hampers its capacity to act as a credible arbitrator in debt restructuring negotiations. The IMF should, in conformity with the recent UN resolution, agree with a statutory approach to restructuring of unsustainable debts and support the creation of a sovereign debt workout institution either as an independent entity or under the auspices of the United Nations.

Global Unions' recommendations

Measures to support economic recovery

23. The IMF and World Bank should

- Support and help implement a global recovery strategy consisting of a policy mix of public investment stimulus and coordinated wage increases, and reverse recommended measures such as lower minimum wages, weakened collective bargaining institutions and reduced social protection

- Contribute, as part of this strategy, to public investments in energy-efficient infrastructure and in education and other quality public services including the care economy to improve long-term productive potential, and support the transition to a low-carbon economy including through the adoption of carbon taxes

- Oppose austerity measures and corresponding cuts in public spending in areas that provide social support, facilitate productive economic activity and provide the basis for stable government services, and support stabilizing public finances through greater tax revenues from higher incomes

Measures for creating decent work and reducing inequality

24. The IMF and World Bank should

- Ensure that the activities they finance comply with fundamental workers' rights, provide safe working conditions and adequate wages, and in particular the World Bank should adopt a comprehensive labour safeguard that requires compliance with the ILO's core labour standards

- Implement the recommendations made by the Compliance Advisor Ombudsman of IFC, the World Bank's private-sector lending arm, in a May 2015 investigation report concerning deficiencies in the application of "IFC Performance Standard 2: Labor and Working Conditions"

- End the promotion of labour market deregulation and, instead, help to reverse the rise in income inequality by supporting social dialogue, strengthened collective bargaining and robust minimum wages as part of a coherent set of labour market policies for more inclusive growth

- Ensure that women benefit from these policy actions to avoid a further deterioration of gender gaps in employment and income levels

- Help countries restore or establish fiscal policies that reduce inequality through more progressive tax regimes and increased coverage of social protection programmes

- Develop action plans to support the implementation of a global social protection floor as developed by the ILO, endorsed by the United Nations, agreed at G20 meetings and included in IMF and World Bank strategies

Measures for effective financial regulation and taxation

25. The IMF should

- Redirect its attention to its core mandate of contributing to a financial sector that is stable and supports growth by focusing country-level advice on issues of unregulated shadow banking systems, “too-big-to-fail” financial groups, under-taxation of the financial industry and lack of affordable finance to small and medium enterprises

- Support the creation of a multilateral framework for negotiating binding international debt restructuring agreements when countries face unsustainable sovereign debt

- Promote stronger actions to counter the erosion of tax bases and achieve reform of taxation systems in order to move towards broader-based and more progressive taxes and to shift taxation from employment to environmentally damaging and non-productive activities

- Support stronger measures to ensure that fiscal revenue is not lost through tax havens by requiring automatic exchange of information and action to stop base erosion and profit shifting by multinational enterprises

- Support the introduction of financial transactions taxes to discourage speculative behaviour and create new sources of finance, including by offering assistance for the coordinated implementation of the euro-zone initiative for a comprehensive FTT in eleven countries

22-09-15